Fiscal Note 2009 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	HB0559		**Title:**	Increase retirement income exclusion on state income tax
Primary Sponsor:	Heinert, Ralph		**Status:**	As Amended

- ☐ Significant Local Gov Impact
- ☐ Included in the Executive Budget
- ☐ Needs to be included in HB 2
- ☑ Significant Long-Term Impacts
- ☑ Technical Concerns
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Revenue:				
General Fund	($2,850,000)	($3,249,000)	($3,515,000)	($3,766,000)
Net Impact-General Fund Balance	($2,850,000)	($3,249,000)	($3,515,000)	($3,766,000)

Description of fiscal impact:
This bill increases the amounts of retirement income that are exempt from Montana income tax and indexes those exemptions for inflation. This reduces general fund revenue.

FISCAL ANALYSIS

Assumptions:

1. Under current law, taxpayers are allowed to exclude up to $3,600 of pension and annuity income from the calculation of gross income for income tax purposes. The amount that may be excluded is reduced by $2 for every $1 that the taxpayer's federal adjusted gross income exceeds $30,000. This bill amends 15-30-111, MCA, and related sections of Title 19 dealing with public employee pensions to increase the exemption amount to $5,400 for single taxpayers and married taxpayers filing separate returns and to $8,000 for married couples filing a joint return. It increases the phase-out threshold for married couples filing a joint return to $38,000 and provides that the exemption amounts and phase-out thresholds are to be adjusted for inflation each year. The changes would be effective beginning with tax year 2007.
2. The income tax revenue estimating model was modified to reflect the changes in this bill. The increased retirement income exclusions reduced tax liability by $2.850 million in 2007, $3.249 million in 2008, $3.515 million in 2009, and $3.766 million in 2010. These changes in liability will reduce revenue when

taxpayers file their returns the spring following each tax year. Therefore general fund revenue will be reduced by these amounts in FY 2008 through FY 1011.

3. This bill would not affect the Department of Revenue's costs of administering the individual income tax.

	FY 2008 Difference	**FY 2009 Difference**	**FY 2010 Difference**	**FY 2011 Difference**
Fiscal Impact:				
Revenues:				
General Fund (01)	($2,850,000)	($3,249,000)	($3,515,000)	($3,766,000)
TOTAL Revenues	($2,850,000)	($3,249,000)	($3,515,000)	($3,766,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($2,850,000)	($3,249,000)	($3,515,000)	($3,766,000)

Long-Range Impacts:

1. The revenue reduction from this bill will grow over time with inflation and the growth of retirement income.

Technical Notes:

1. Section 1 adds a new subsection (9) to 15-30-111, MCA and defines the term "inflation factor" for use within that subsection. The term "inflation factor" is already defined in 15-30-101, MCA, for general use in Title 15, Chapter 30. Having a different definition for this subsection is likely to cause confusion. This situation could be eliminated by specifying the inflation adjustment calculation without giving it a name or by relying on the more general definition and replacing "inflation factor" in Subsections 9(a) and 9(b) with "ratio of the inflation factor for the tax year to the inflation factor for 2007."

Sponsor's Initials *Date* *Budget Director's Initials* *Date*